Barnett Waddingham

Pensions News – March 2012

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Latest news from Europe

Solvency II for pension schemes?

The European Insurance and Occupational Pensions Authority (EIOPA) has finalised its advice to the European Commission (EC) on the legislative framework for Institutions for Occupational Retirement Provision (IORPs), and the extent to which the framework should be similar to the Solvency II framework for insurance (see Pensions News – October 2011).

The EIOPA response considers the matter on technical grounds and does not attempt to challenge any political decisions, but acknowledges that alternative approaches to that proposed by the EC could be adopted.

One of EIOPA's key recommendations is the "holistic balance sheet" for pension schemes, which would involve placing a value on sponsor support, contingent assets and possibly the protection offered by the Pension Protection Fund (PPF). Liability calculations would incorporate a contingency margin.

EIOPA advice recommends a consistent approach to that used by insurance companies, for example similar governance principles. While the detail of the framework is a long way from being finalised, it could lead to significantly higher estimates of pension liabilities if implemented as proposed.

EIOPA is currently preparing a quantitative impact study, which it views as crucial to exploring the impact on pension funds of the proposed approach. EIOPA aims to publish results of the study in the second half of 2012.

EIOPA also calls for the introduction of a "Key Information Document" for all defined contribution (DC) schemes to give members confidence in their scheme irrespective of location within the EU.

Meanwhile, the EC has published its White Paper on the future of pensions in Europe. "An Agenda for Adequate, Safe and Sustainable Pensions" addresses the way in which EU member states can work together to meet the challenges of an ageing population.

The paper also reaffirms the EC's aim "to maintain a level playing field with Solvency II", and the commitment to review the IORP directive in 2012. It also considers:

- best practice in reducing the gender gap in pensions,
- helping older people continue working (eg by linking retirement age with life expectancy or adapting workplace practices),
- portability of pensions and the establishment of EU-wide pension tracking, and
- encouraging EU member states to provide better information to individuals for their retirement planning.

Latest News from the Regulator and the PPF

Purple Book 2011

The Pension Protection Fund (PPF) and the Pensions Regulator (tPR) have published the 2011 edition of their Purple Book, highlighting the risks faced by private sector defined benefit pension schemes. Statistics in the Purple Book are based on around 98% of all PPF-eligible schemes.

The 2011 edition shows a fall in the proportion of open schemes from 18% in 2010 to 16% in 2011. The proportion of schemes closed to future accrual rose from 21% to 24%.

According to the Purple Book, for schemes with valuation dates between 22 September 2008 and 21 September 2009, the average recovery plan length lengthened to 9.5 years (2007/8 – 8.4 years) and the average funding ratio fell to 71% (2007/8 – 81%).

Schemes have also been taking action to reduce their risks. The Purple Book estimates that £13.7 billion of scheme liabilities were hedged using inflation derivatives in the first half of 2011. Total risk transfer business (covering buy-outs, buy-ins and longevity hedges) amounted to £31 billion between the end of 2006 and the third quarter of 2011.

The total number of PPF-recognised contingent assets in place has risen by 20%, from approximately 750 for the 2010/11 levy year to 900 for 2011/12.

Early release warning

TPR, the Financial Services Authority (FSA) and HM Revenue and Customs (HMRC) are jointly warning people not to accept pension offers that claim to be able to provide loans or release tax-free cash from pension pots before retirement.

They say that there has been an increase in such schemes, with nearly £200m of pension assets transferred by the end of 2011. Individuals are being advised to check whether a firm is authorised by the FSA.

This follows an earlier warning from tPR about Pension Reciprocation Plans (PRPs). PRPs are arrangements where loans are used as a means of unlocking pension capital prior to retirement. Earlier this year, the High Court ruled that such loans constituted unauthorised payments (see Pensions News - January 2012).

PPF News

The latest update of the PPF's 7800 Index of schemes' funding (on a s179 basis) has been published.

The aggregate funding position of the 6,432 schemes in the index is estimated to have improved slightly over the month from a deficit of £270.8 billion at the end of December to £265.5 billion at the end of January. However, the estimated funding position has worsened over the year (January 2011: surplus of £38.5 billion).

In their latest bulletin, the PPF reminds schemes of the forthcoming levy-related deadlines:

- 5pm on 30 March 2012 for submission of Scheme Return information and certification of contingent assets,
- 5pm on 10 April 2012 for certification of deficit reduction contributions, and
- 5pm on 29 June 2012 for certification of full block transfers.

Other news

Auto-enrolment: Guidance and Legislation

The Department for Work and Pensions (DWP) has recently published several new documents relating to the introduction of auto-enrolment, including:

- a revised version of its key facts booklet “Automatic enrolment into a workplace pension”, which has been added to its Workplace Pension toolkit.
- the Government response to the DWP’s earlier consultation on “Workplace Pension Reform: completing the legislative framework for automatic enrolment” (see Pensions News – July 2011).
- the final version of its “Guidance on certifying money purchase pension schemes and the money purchase element of hybrid pension schemes”.
- four sets of draft regulations which will, among other changes:
  - allow large employers to choose an earlier staging date (as early as 1 July 2012) for auto-enrolment,
  - allow employers to move automatic re-enrolment dates to within three months either side of each three-year anniversary, and
  - increase the options available to employers with DC schemes.

Meanwhile, tPR has published an updated version of its guidance on automatic enrolment duties for large employers and advisers. It has also published its strategy for maximising employer compliance with the new regime and encouraging those offering DC arrangements to provide well-governed, durable and value for money arrangements.

FSA: Transfers

The Financial Services Authority (FSA) has published a consultation paper on the way pension transfer analysis is carried out to ensure that pension scheme members are given a fair assessment of the benefits they might receive when considering a transfer.

The paper proposes changes to ensure that the assumptions used by advisers carrying out transfer value analyses are applied consistently by all firms, take account of recent UK and EU legislation, and use reasonable growth rates for illustrating the results to the member.

Interested parties are invited to respond by 27 March 2012.

ABC: Tax relief

The Government announced in November 2011 that backdated legislation would be included in the Finance Bill 2012 to ensure that excessive tax relief could not arise in respect of asset-backed contribution (ABC) arrangements (see Pensions News - November 2011).

Further legislation, effective from 22 February 2012, will ensure that up front relief will not be given unless the total of all asset-backed payments to the pension scheme are fixed at the outset.

Transitional arrangements will apply where contributions were paid under such arrangements before 22 February 2012.

DC Governance

The Work and Pensions Committee has launched a new inquiry into workplace pension schemes that will focus on governance and best practice.

Interested parties are invited to provide submissions by Friday 13 April 2012 on how to ensure DC schemes deliver good outcomes for their members.

In addition, the inquiry is seeking comments on:

- the outlook for remaining DB schemes,
- whether "red tape" for these schemes could be reduced,
- whether measures should be considered to tackle their decline, and
- the scope for collective DC schemes and other risk-sharing schemes.

GMP Revaluation

As expected (see Pensions News – August 2011), the DWP has confirmed that the rate of fixed rate revaluation on Guaranteed Minimum Pensions (GMPs) applying for periods of service ending on or after 6 April 2012 is to increase from 4.0% pa to 4.75% pa.

The change will increase liabilities for some contracted-out DB pension schemes.

Budget 2012

The Chancellor of the Exchequer, George Osborne, delivered his 2012 Budget speech to the House of Commons on 21 March.

Before Budget Day, there were plenty of rumours circulating about the changes the Treasury might make to pension scheme taxation. However, in his Budget speech, the Chancellor said "I don't intend to make any significant changes to pensions relief".

He did, however, confirm that the Government intends to press ahead with combining the State Second Pension and Basic State Pension into a single-tier contributions-related state pension worth around £140 per week (in today's terms) – effectively meaning the end of contracting-out for salary-related pension schemes.

Further details on the 2012 Budget will be included in our April newsletter.

Further Information

For further information on any of the topics in this bulletin, please speak to your usual Barnett Waddingham consultant, or visit our website.

You might also find our recent publications on the following topics useful:

- Commentary on Special Purpose Vehicles
- Investment Markets 2011/12

Dates for our 2012 Trustee Training courses can be found here. These are aimed at new trustees or those seeking a reminder of the basics.

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